

BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Prairie)
Land Electric Cooperative, Inc. Seeking)
Commission Approval to Update Its Local) Docket No. 19-PLCE- 436 - TAR
Access Delivery Service Tariff Pursuant to)
the 34.5kV Formula Based Rate Plan)
Approved in Docket No.16-MKEE-023-)
TAR.

PREFILED DIRECT TESTIMONY OF

CHARLES W. LOOK
CHIEF EXECUTIVE OFFICER
PRAIRIE LAND ELECTRIC COOPERATIVE, INC.

ON BEHALF OF

PRAIRIE LAND ELECTRIC COOPERATIVE, INC.

April 24, 2019

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PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Charles W. Look. My business address is 14295 U.S. Highway 36, Norton, Kansas.

Q. What is your profession?

A. I am Chief Executive Officer of Prairie Land Electric Cooperative, Inc. ("Prairie Land" or "Cooperative").

Q. What is your educational background?

A. I graduated from Stockton High School in 1971 and attended Fort Hays State University for three semesters in 1972 and 1973.

Q. What is your professional background?

A. In June 1978, I became employed by Norton-Decatur Cooperative Electric Company, Inc., the predecessor company of Prairie Land. From June 1978 to August 1993, I was an apprentice lineman, journeyman lineman, lead lineman, and area foreman. In August 1993, I was promoted to staff assistant; in 2005, I was promoted to be the assistant to the manager; and in 2010, I became the Assistant Manager. In January 2019, I was promoted to be Prairie Land's Chief Executive Officer. As Chief Executive Officer of Prairie Land, I serve on the Board of Directors for Mid-Kansas Electric Company, Inc. ("Mid-Kansas") and Sunflower Electric Power Corporation ("Sunflower").

Q. Have you previously presented testimony before the Kansas Corporation Commission ("KCC" or "Commission")?

A. No.

PART II - SUMMARY OF DIRECT TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is as follows:

- 1 1. Affirm Prairie Land's support for the calculation of the wholesale demand rate for the
- 2 Local Access Delivery Service ("LADS") service over Prairie Land's 34.5kV sub-
- 3 transmission system (Mid-Kansas division) as contained in Ms. Elena Larson's Prefiled
- 4 Direct Testimony.
- 5 2. Confirm that Prairie Land will notify its customers as required in Section C of the
- 6 Commission-approved 34.5kV FBR Protocols ("Protocols") (included as Exhibit B
- 7 with the Commission's March 10 and April 26, 2016 Orders in the 16-023 Docket).
- 8 3. Attest to the Equity Test requirement noted in Section H of the Protocols.
- 9 4. Provide the information required by Item No. 11 listed in Section F of the Protocols.

10 **Q. What is Prairie Land's opinion concerning the proposed 2019 34.5kV FBR rate of**
11 **\$2.87/kW?**

12 A. Prairie Land Staff has provided the data necessary for the calculations as contained in the
13 populated 34.5kV FBR template attached to the Application filed in the instant Docket as
14 Exhibit 5. Cooperative Staff has reviewed the exhibit and the supporting work papers and is
15 in agreement that the resultant rate was arrived in accordance to Prairie Land's 34.5kV FBR
16 Protocols as approved by the Commission. Accordingly, Prairie Land believes this rate, as
17 detailed in Ms. Larson's Prefiled Direct Testimony and included in the proposed LADS tariff,
18 is just and reasonable, as it is based on the cost of service ("COS") and follows the
19 Commission-prescribed methodology.

20 **Q. Please elaborate on how the Customer Notification requirement, detailed in Section C of**
21 **the Protocols, will be fulfilled.**

22 A. Upon filing of the Application and all of the exhibits in the instant Docket (and once the actual
23 Docket Number is known to the Cooperative), all customers taking wholesale LADS from
24 Prairie Land will receive notice of the filing when it was made with the Commission. Such
25 notice may be made via electronic mail or bill insert and will contain the following information:

1. The date the filing was made with the Commission and the docket number assigned.
2. The amount of the revenue adjustment sought.
3. The resulting rate impact.
4. A statement explaining that the rate adjustment is being made pursuant to the 34.5kV FBR, with a cite to Docket No. 16-MKEE-023-TAR and the date of the Commission's March 10, 2016 Order approving the initial application for Prairie Land's 34.5kV FBR.
5. A Prairie Land contact person and phone number for questions.

Q. Please address the Equity Test requirement as noted in Section H of the 34.5kV FBR Protocols.

A. Per Section H of the Protocols, Prairie Land (Mid-Kansas division) must notify the Commission when its distribution equity ratio (calculated exclusive of equity in or from Associated Organizations) reaches 36.31 percent, which would signal the re-evaluation of the currently-approved Operating Times Interest Earned ("OTIER") and Modified Debt Service Coverage ("MDSC") ratios as used in the 34.5kV FBR.

Q. Has Prairie Land (Mid-Kansas division) calculated its Distribution Equity Ratio for the 2018 Test Year?

A. Yes. Table 1 on the following page evidences that for 2018, Prairie Land's Distribution Equity Ratio (for the Mid-Kansas division), calculated to be at 31.07 percent, was below the prescribed 36.31 percent threshold. Note that one of the major items excluded as equity in Associated Organizations, as detailed in Table 2 on the following page, is represented by Prairie Land's equity in Mid-Kansas, its generation and transmission ("G&T") provider.

Table 1. Prairie Land (Mid-Kansas Division) 2018 Distribution Equity Ratio				
Excluding investment in Associated Organizations				
Bal. Sheet				
Ln. No.				
C29	Total Assets & Other Debts		\$	87,578,034.93
C36	Total Margins & Equities		\$	35,582,866.08
C8	Investment in Associated Organizations - Patronage Capital		\$	797,112.54
C9	Investment in Associated Organizations - Other - General Funds		\$	11,346,062.60
C10	Investment in Associated Organizations - Other - Nongeneral Funds		\$	-
	Total Investment in Associated Organizations		\$	12,143,175.14
Distribution Equity Ratio	$\frac{C36 - (C8+C9+C10)}{C29 - (C8+C9+C10)}$	$=$	$\frac{\$35,582,866.08 - \$12,143,175.14}{\$87,578,034.93 - \$12,143,175.14}$	$=$ 31.07%

Table 2. Prairie Land (Mid-Kansas Division) 2018 Investment in Associated Organizations			
Bal. Sheet			
Ln. No.	Description	Amount	
C8	Cooperative Response Center - Equity Investment	2,476.03	
	Federated Insurance Capital Credits	220,562.65	
	Kansas Electric Cooperatives - Capital Credits	37,311.43	
	Farmway Co-op - Capital Credits	134.53	
	NRUCFC - Capital Credits	440,372.75	
	Rural Telephone Capital Credits	1,854.37	
	CoBank - Capital Credits	6,966.07	
	National Information Solutions Cooperative - Capital Credits	78,833.89	
	National Rural Telecommunications Cooperative	8,600.82	
		797,112.54	
C9	Mid-Kansas Electric Company - Margins Allocation	11,346,062.60	
C10		-	
Total Investment in Associated Organizations		12,143,175.14	

Q. Now please discuss the information required for Item No. 11 on the list of required filing exhibits as contained in Section F of the Protocols.

A. This Item requires the Cooperative to provide a summary explanation of any material increases from the previous year (where “material” is quantified to be over 10 percent) in a COS item for the 34.5kV FBR. Comparing line items in Column (i) FBR Revenue Requirement on Exhibit 5, Page 1 submitted in the instant Docket against the same categories as approved last year by the Commission in the 18-PLCE-462-TAR Docket, one 2019 COS item is identified as showing an increase of over 10 percent when compared to the 2018 COS: Administrative & General (“A&G”) expense. See the following summary in Table 3.

Table 3. Prairie Land (Mid-Kansas Division) COS Item Comparison					
COS Item Description	2018 FBR Approved Revenue Requirement	2019 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 673,340	\$ 675,721	\$ 2,381	0.4%	
Administration & General	\$ 101,337	\$ 119,079	\$ 17,742	17.5%	
Depreciation and Amortization	\$ -	\$ -			
Transmission	\$ 581,453	\$ 589,536	\$ 8,083	1.4%	
General Plant	\$ 6,102	\$ 6,347	\$ 245	4.0%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ 183	\$ 185	\$ 2	1.1%	
L.T. Interest	\$ 600,473	\$ 605,149	\$ 4,676	0.8%	
Interest Charged to Construction - Credit	\$ -	\$ -	\$ -		
Interest-Other	\$ 7,051	\$ 7,130	\$ 79	1.1%	
Other Deductions	\$ -	\$ -	\$ -		
<u>Margin Requirement Components</u>					
Principal Payments	\$ 482,378	\$ 499,123	\$ 16,744	3.5%	
L.T. Interest	\$ 600,473	\$ 605,149	\$ 4,676	0.8%	

Q. Please explain the drivers behind the change in the A&G expense.

A. The reason for the \$17,742 increase in the A&G expense allocated to this year’s 34.5kV FBR is primarily due to the 5 percent increase in the total A&G expense in 2018 as compared to 2017. This increase was due to multiple factors, which I will discuss as follows.

1 First, several senior staff members retired in late 2018 or will retire in early 2019, including
2 the CEO, the Director of Member Services, and one of our Operations Managers. To prepare
3 for the retirements, Prairie Land promoted existing staff to these positions prior to retirement
4 of senior staff; likewise, those that were promoted had their pending replacements put in place
5 to allow for cross training. As a result, added labor cost and payout of vacation days were
6 incurred in 2018 and will overflow into 2019 as the transition is completed.

7 Second, Prairie Land, in accordance with the industry's best practices, made several
8 investments in software and cyber security including MS Office 365 software subscription,
9 new anti-virus subscription, and updated server software.

10 Third, Prairie Land paid more in dues in 2018: Cooperative saw an 11.3 percent increase
11 (\$8,759 allocated to Mid-Kansas division) in Kansas Electric Cooperative ("KEC") dues for
12 2018 over 2017; and Touchstone Energy Cooperatives ("Touchstone Energy") annual dues
13 were paid in January 2018, whereas no membership dues were booked for Touchstone in Fiscal
14 Year 2017.¹

15 Lastly, the Labor ratio used to allocate the total A&G expense amount to the 34.5kV FBR
16 also increased. This was due to Prairie Land expensing over 281 hours (17 percent increase)
17 of additional labor to transmission expense compared to last year. Therefore, more dollars of
18 A&G expense were allocated to the 34.5kV FBR revenue requirement.

19 **Q. Please discuss the steps the Cooperative took to lessen the impact of the increase in A&G**
20 **expense on its customers.**

21 A. I will discuss these steps in order:

- 22 • Decisions made with regards to filling key staff positions

24
25 ¹ Prairie Land's 2017 Touchstone Energy annual dues were paid in December 2016.

Each time a position is open within Prairie Land, we evaluate the necessity and merit of retaining each and every position. While total Mid-Kansas division A&G labor costs (including direct labor and labor overheads) increased \$47,194, replacing the CEO, the Director of Member Services, and the Operations Manager was essential, as they play key roles in the leadership of the Cooperative.² The CEO position is an appointment made by the Board of Trustees. Their decision to promote from within saved our Cooperative and our ratepayers money by not having to hire a consultant and the costs associated with a national search. The remaining two positions were also promoted from within. Promoting from existing staff not only saved our customers money, it created continuity and an easy transition for the new leadership. As their replacements were selected, we again evaluated the necessity and merit to each vacant position as it became open. Through this process, it should be noted that Prairie Land eliminated one journeyman lineman position and an office manager position in an effort to control costs and keep rates as low as possible for all our customers.

- Software Updates

Prairie Land invested \$16,183 (Mid-Kansas division allocation) in Office 365, anti-virus software, and server software in 2018. Prairie Land's IT department is continually evaluating our needs regarding cyber security and office efficiencies. Adding the Office 365 subscription will be a more cost-effective way to manage

² It should be noted that while the Labor Allocator (Exhibit 5, page 4, WP3-Allocation Factors, Line 20) used to apportion the A&G to the 34.5kV FBR includes only direct labor dollars for transmission wages, the A&G costs being allocated (as reflected in Exhibit 5, page 1, line 10, column f) contain all costs associated with labor, including overheads. Therefore, in this explanation of the increased costs, we noted an increase in total labor costs, which include labor overheads (i.e. counting Overhead and Secondary Distribution amounts, which are in addition to Labor Amount, as noted in Payroll Exhibit 7).

1 software licensing and allow for greater usability and security on our system. With
2 Office 365, we are able to collaborate with co-workers on projects, share files, work
3 remotely, and utilize other tools to enhance our productivity. Upgrading our anti-virus
4 and server licenses is essential to protect our network from cyber attacks and protect
5 our member information. Without adequate cyber protection, we could put our
6 customers' information at risk and incur significant costs or losses if we were to have
7 a cyber security breach event.

8 • KEC and Touchstone Energy Assessments

9 KEC assessments increased 11.3 percent (\$8,756 allocated to Mid-Kansas division)
10 for 2018 over 2017. However, this is a small and warranted increase considering KEC
11 represents the interests of and provides needed services and programs to the electric
12 cooperatives of Kansas, including Prairie Land. KEC offers extensive legislative
13 research and coordinates legislative action programs at the state and national levels;
14 provides regulatory support; delivers education and safety/loss programs; supports
15 public relations; and affords legal and communication services to its members. Most
16 of the services KEC provides, which are dues-based, function for the mutual benefit of
17 its cooperative members. By banding together with other electric cooperatives, we are
18 able to share in the costs and have greater efficiencies, creating savings for our
19 Cooperative and our customers.

20 In addition to being a member of KEC, Prairie Land, like most other
21 cooperatives in Kansas, is also a member of Touchstone Energy Cooperatives.
22 Touchstone Energy is a cooperative federation comprised of more than 750
23 consumer-owned cooperatives in 46 states. Touchstone Energy provides member
24 engagement, business development, employee education, advertising, as well as
25 supports cooperative performance assessment needs for its cooperative members.

1 The amount of Prairie Land's Mid-Kansas Division's portion of the annual dues for
2 Touchstone Energy in 2018 were the same as for 2017 at \$14,300 (50 percent of
3 which was excluded from the 34.5kV FBR, as reflected in Exhibit 10). However,
4 the 2017 Touchstone Energy dues were paid for and booked in December 2016. By
5 not booking any dues for Touchstone Energy in 2017, it gives the appearance these
6 dues increase significantly in 2018, whereas, they stayed the same.

7 • Labor Hours

8 Lastly, the expensing of more labor hours in 2018 (281 hours) to the transmission
9 expense account is the result of poor weather conditions for crews to build and
10 construct power lines. Inclement weather did not allow our crews to complete
11 construction projects as anticipated; thereby, their labor hours were expensed rather
12 than capitalized. Crews were still productive by patrolling lines and performing
13 maintenance tasks when weather permitted. As a result, the Labor ratio used to allocate
14 the total A&G expense amount to the 34.5kV FBR increased slightly (from about 5.1
15 to 5.7 percent) as compared to last year. While Prairie Land cannot control weather
16 conditions, every effort is made by Prairie Land to be as productive as possible during
17 inclement weather months.

18 **Q. Do you have any other comments regarding the steps Prairie Land took to lessen the**
19 **impact of the cost increases noted above on its customers?**

20 A. I would like to close by noting that increases in costs due to operational changes affect Prairie
21 Land's wholesale and retail customers alike. Decisions made with regards to staffing, debt
22 financing, and the overall operations of Prairie Land are always made with the customers' best
23 interest in mind. Every effort is taken to find cost saving measures whenever possible in order
24 to lessen the impact on our customers.

Q. What is your final recommendation to the Commission?

A. I support Ms. Larson's recommendation to approve Prairie Land's Application in the instant Docket, as the resultant rate is reflective of the COS, was calculated in accordance to the Commission-approved 34.5kV FBR Protocols, and therefore is just and reasonable and is in the public interest.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF KANSAS

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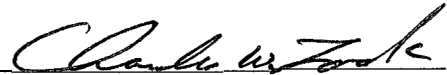
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COUNTY OF NORTON

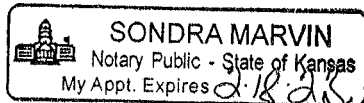
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Charles Look, being first duly sworn, deposes and says that he is the Charles Look referred to in the foregoing document entitled "Prefiled Direct Testimony of Charles Look" before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.




Charles Look

SUBSCRIBED AND SWORN to before me this 22nd day of April, 2019.



Seal:


Notary Public

My Commission expires: